

Green Building Finance Consortium

Glossary of Words and Phrases

The following is a dynamic, working list compiled by the Consortium. It is continually being updated with new words and phrases relevant to the interdisciplinary field of green building finance.

Word/Phrase	Definition
above building standard	Upgraded finishes and specialized designs necessary to accommodate a tenant's requirements. ⁸
absorption	The process by which incident light energy is converted to another form of energy, usually heat. ¹
absorption chiller	A water chilling process in which cooling is accomplished by the evaporation of a fluid (usually water), which is then absorbed by a different solution (usually lithium bromide), then evaporated under heat and pressure. The fluid is then condensed with the heat of condensation rejected through a cooling tower. ⁴
absorption period	The actual or expected period required from the time a property is initially offered for lease, purchase, or use by its eventual users until all portions have been sold or stabilized occupancy has been achieved. Although marketing may begin before the completion of construction, most forecasters consider the absorption period to begin after completion of construction. ¹¹
absorption rate	The rate at which rentable space is filled. Gross absorption is a measure of the total square feet leased over a specified period with no consideration given to space vacated in the same geographic area during the same time period. Net absorption is equal to the amount occupied at the end of a period minus the amount occupied at the beginning of a period and takes into consideration space vacated during the period. ⁸
accelerated cost recovery system	A tax calculation that provides greater depreciation in the early years of ownership of real estate or personal property. ⁹
accelerated depreciation	A method of cost write-off for depleting assets in which allowances for depreciation are greater in early years and decline according to a formula. Note that, technically, the depreciation decelerates with respect to time, but the term accelerated depreciation has gained acceptance through popular usage and refers to accelerated, or faster, recovery of capital during the early years compared to straight-line recovery. ¹⁴

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Word/Phrase	Definition
accelerated schedule	A building and/or design schedule that operates on a faster deadline than the norm, often so the owner can begin realizing revenue sooner. This can be accomplished by the contractor bidding the project based on 24-hour work days and/or extended workweeks, dividing the work into smaller portions, or by the owner providing a cost incentive if the work is completed faster than scheduled. ²
accumulated depreciation	In accounting, the amount of depreciation expense that has been claimed to date. ⁹
acre	A two dimensional measure of land equaling 4,840 square yards or 43,560 square feet. ⁹
active noise cancellation (ANC)	Involves reducing a sound field through the interaction of a primary sound source with an actively controlled identical secondary sound that is 180 degrees out of phase. ¹
adjustable rate mortgage (ARM)	A debt secured by real estate with an interest rate that may move up or down following a specified schedule or in accordance with the movements of a standard or index to which the interest is tied. ¹¹
adjusted sale price	The figure produced when the transaction price of a comparable sale is adjusted for elements of comparison. When the appropriate sequence of adjustments is followed, several intermediate adjusted sale prices are calculated and used as the basis for subsequent adjustments. ¹¹
adjustment grid	A market data grid used in the sales comparison approach and other approaches to facilitate adjustment of differences in units of comparison. ¹¹
after-tax cash flow (ATCF)	The portion of pre-tax cash flow that remains after all income tax liabilities have been deducted. ¹¹
age-life method	A method of estimating depreciation in which the ratio between the effective age of a building and its total economic life is applied to the current cost of the improvements to obtain a lump-sum deduction; also known as the 'economic age-life method.' ¹¹
air changes per hour (ACH)	The movement of a volume of air in a given period of time; if a house has one air change per hour, it means that the air in the house will be replaced in a one-hour period. ⁵

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air handling unit	Equipment that includes a fan or blower, heating and/or cooling coils, regulator controls, condensate drain pans, and air filters. ⁵
air rights	The right to undisturbed use and control of designated air space above a specific land within stated elevations. Such rights may be acquired to construct a building above the land or build another or to protect the light and air of an existing or proposed structure on an adjoining lot. ¹¹
allergen	A substance capable of causing an allergic reaction because of an individual's sensitivity to that substance. ¹
alternative energy	Energy from a source other than the conventional fossil-fuel sources of oil, natural gas and coal (i.e., wind, running water, the sun). Also referred to as "alternative fuel." ⁶
alternative fuels	Substitutes for traditional liquid, oil-derived motor vehicle fuels like gasoline and diesel. Includes mixtures of alcohol-based fuels with gasoline, methanol, ethanol, compressed natural gas, and others. ⁵
ambient lighting	Lighting in an area from any source that produces general illumination, as opposed to task lighting. ¹
American Council for an Energy-Efficient Economy (ACEEE)	Publishes books and papers on industrial, commercial, and residential energy-efficiency. ¹³
American Society for Testing and Materials (ASTM)	An organization with a membership drawn from engineering, scientific, manufacturing, consumer, and governmental groups interested in establishing voluntary test standards for materials, products, systems, and services. ¹¹
American Society of Interior Designers (ASID)	A nonprofit professional society representing the interests of interior designers and the interior design community. The organization's Sustainable Design Council oversees ASID's sustainable design strategic initiative and supervises its online Sustainable Design Information Center . ¹³
American Solar Energy Society, Inc (ASES)	Disseminates and transfers research on practical uses of solar energy, wind power, and photovoltaics. ¹³

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amortization	The liquidation of a financial debt through regular periodic installment payments. For tax purposes, the periodic deduction of capitalized expenses such as organization costs. ⁸
analysis of variance (ANOVA)	A well-developed body of techniques for analyzing and comparing data without the use of multiple regression. ANOVA is particularly useful for testing and comparing group mean scores and variances and for integrating categorical and continuous variables in analysis. Considered outdated by some, it is well-suited for many appraisal applications building on the underlying economic and appraisal theory, and it is a good pedagogical tool. It can be especially useful in estimating transaction adjustments, sale conditions (motivation), market conditions (time), and space (location). The concepts underlie visual graphic analysis. ¹¹
annual percentage rate (APR)	The actual cost of borrowing money. It may be higher than the note rate because it represents full disclosure of the interest rate, loan origination fees, loan discount points and other credit costs paid to the lender. ⁸
appraisal	An estimate of a property's fair market value that is typically based on three approaches to value: the cost approach, the income approach, and the sales comparison approach. ¹²
Appraisal Foundation (AF)	A not-for-profit educational foundation, organized in 1987 to foster appraisal professionalism through the establishment of uniform standards of appraisal practice and qualifications for the state certification and licensing of appraisers. ¹¹
appraisal review	The act or process of developing and communicating an opinion about the quality of another appraiser's work. ¹¹
Appraiser Qualifications Board (AQB)	Independent board of The Appraisal Foundation that establishes minimum experience, education, and examination criteria for state licensing of appraisers and recommends such criteria for state licensing of appraisers. ¹¹
architect's punch list	A list of items to be completed that is prepared by the architect during final inspection of a structure. ¹¹
arm's-length transaction	A transaction between unrelated parties under no duress. ¹¹
asbestos-containing materials (ACMs)	Any material or product containing more than 1% asbestos. ¹¹

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Word/Phrase	Definition
average daily room rate (ADR)	In hotel analysis, total guest room revenue divided by the total number of occupied rooms. ¹¹
B pieces	The classes (tranches) of commercial mortgage-backed securities (CMBS) rated BB and lower. Also called BIG (below investment grade) by regulated institutional investors. ¹¹
baffle	A single opaque or translucent element used to diffuse or shield a surface from direct or unwanted light. ¹
bakeout	A process used to remove VOCs by elevating the temperature in an unoccupied, fully furnished, and ventilated building. ¹
balance sheet	An itemized listing of the total assets, total liabilities, and net worth of an entity. ¹¹
ballasts	Electrical “starters” required by certain lamp types, especially fluorescents. ¹
balloon, or bullet, loan	A loan that has level monthly payments that will amortize it over a stated term (e.g., 30 years) but that requires a lump sum payment of the entire principal balance at the end of a shorter term (e.g., 10 years). ⁹
band of investment	The technique of combining weighted-average rates attributable to components of a capital investment to derive a weighted-average rate attributable to the total investment. ¹⁴
base year	The year on which escalation clauses in a lease are based. ¹¹
basis	In income taxation, the portion of total property value most likely to be affected by depreciation or capital improvement; the dollar amount attributed to a property from which capital gains or losses upon resale are computed. ¹¹
basis point	One 100th of 1%. ⁹
best available control technology (BACT)	The achievable emission rate when factoring the maximum amount of reduction for each regulated air pollutant that is emitted from or caused by a specified source. ²
beta	A measure of a company's common stock price volatility relative to the market. ⁸
big box store	A general merchandise store that sells at discount; also called value retailer. ¹¹
blackwater	1) Water rich in humic acids and poor in nutrients. Found in tropical areas especially and supporting a distinct fish fauna. 2) Water with human, animal and food wastes. ¹⁸

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Word/Phrase	Definition
book value	The capital amount at which property is shown on the account books of a corporation or individual. The net amount at which an asset is carried on the books or reported in financial statements; the asset's cost at acquisition, reduced by the amount of accumulated depreciation on the asset. ¹¹
breakeven point	In real estate investment analysis, the point at which the cumulative income (effective gross income) of an investment property equals its cumulative loss (normal operating expenses plus debt service). ¹¹
bridge financing	Short-term financing between 1) the termination of one loan and the commencement of another; 2) the acquisition of a property and the improvement or rehabilitation that will make it eligible for a permanent mortgage; or 3) the maturity of a construction loan and the negotiation of permanent financing. ¹¹
bridge loan	mortgage financing between the termination of one loan and the beginning of another loan. ⁹
broker	A person who acts as an intermediary, bringing together two or more participants in a market transaction. ¹¹
brownfield	With certain legal exclusions and additions, the term 'brown-field site' means real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. ¹⁵
building cooling load	The hourly amount of heat that must be removed from a building to maintain indoor comfort (measured in British thermal units (Btus)). ⁵
building envelope	The exterior surface of a building's construction--the walls, windows, floors, roof, and floor. Also called building shell. ⁵

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Word/Phrase	Definition
Building for Environmental and Economic Sustainability (BEES)	Software program developed by the NIST (National Institute of Standards and Technology) . It is aimed at designers, builders, and product manufacturers. It provides a way to balance the environmental and economic performance of building products. BEES measures the environmental performance of building products by using an environmental life-cycle assessment approach specified in the latest versions of ISO 14000 draft standards. All stages in the life of a product line are analyzed: raw material acquisition, manufacture, transportation, installation, use, and recycling and waste management. Economic performance is measured using the ASTM standard life cycle cost method, which covers the costs of initial investment, replacement, operation, maintenance and repair, and disposal. Environmental and economic performances are combined into an overall performance measure using the ASTM standard for Multi-Attribute Decision Analysis. The BEES methodology is being refined and expanded under sponsorship of the EPA's Environmentally Preferable Purchasing Program . BEES currently addresses categories of product choices and is not specific to a type of product. ³
building pressurization	The air pressure within a building relative to the air pressure outside. Positive building pressurization is usually desirable to avoid infiltration of unconditioned and unfiltered air. Positive pressurization is maintained by providing adequate outdoor makeup air to the HVAC system to compensate for exhaust and leakage. ¹
Building Research Establishment (BRE)	With a wide range of research focused on the built environment, BRE offers research-based consultancy, testing, and certification services to customers worldwide. The BRE environmental assessment method is a widely accepted measurement of the best practices in environmental design and management of offices, retail developments, industrial buildings, and homes. ¹³
building-related illness (BRI)	Clinically verifiable diseases that are attributed to a specific source or pollutant within a building and are more serious than Sick Building syndrome (SBS) condition. The symptoms of the disease persist after the occupant leaves the building, unlike SBS in which the occupant experiences relief shortly after leaving the building. ¹

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Word/Phrase	Definition
build-out	Interior construction that converts raw space into finished space ready for occupancy; includes installation of equipment, finish carpentry, construction of amenities, and initial tenant improvements. ¹¹
build-to-suit	A method of leasing property whereby the developer/landlord builds to a tenant's specifications. ⁸
bullet loan	Gap financing for leased-up properties used when the construction loan has expired and acceptable permanent financing has not yet been found; typically an interest-only loan for two to 10 years that cannot be prepaid. ¹¹
business enterprise value (BEV)	A term applied to the concept of the value contribution of the total intangible assets of a continuing business enterprise such as marketing and management skill, an assembled work force, working capital, trade names, franchises, patents, trademarks, contracts, leases, and operating agreements. ¹¹
buy down	A payment of discounts points in exchange for a lower rate of interest. It has the effect of providing the lender with a greater yield today in exchange for a lower yield in the future. ⁹
candela (cd)	The SI unit of luminous intensity (formerly called the "candle"). One candela equals one lumen per steradian—a specific measure of luminous intensity, in a given direction. ¹
capital expenditure	The cost of an improvement made to extend the useful life of a property or to add to its value, such as adding a room. The cost of repairing a property is not a capital expenditure. Capital expenditures are depreciated over their useful life; repairs are subtracted from income for the current year. ⁹
capital gain	The amount by which the net proceeds from the resale of an asset exceed the adjusted cost basis, or book value, of the item; used primarily in income tax computations; may be short or long term. The Tax Reform Act of 1986 eliminated the special treatment of capital gains. ¹¹
capital improvements	The amount by which the net proceeds from resale of a capital item exceed the adjusted cost ("book value") of the item. ¹⁴
capital improvements	Expenditures that arrest deterioration of property or add new improvements and appreciably prolong its life. ⁸

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Word/Phrase	Definition
capital markets (Commercial Real Estate)	Made up of public equity (REIT's, mutual funds, etc), private equity (pension funds, private investors, foreign investors, corporate investment), public debt (commercial mortgage-backed securities), and private debt (banks, insurance companies, etc). ¹²
capital or financing lease	In accounting practice, a lease agreement with a term equal to at least 75% of the leased asset's estimated economic life, either providing the lessee with the option to purchase the leased asset at a bargain price or allowing the lessee to assume ownership at the end of the lease term. ¹¹
capitalization	The conversion of income into value. ¹¹
capitalization rate (R)	Any rate used to convert income into value. ¹¹
cash flow	The net operating income minus the total of all debt service payments. (See: net operating income). ⁹
cash flow analysis	A study of the anticipated movement of cash into or out of an investment. ¹¹
cash-on-cash yield	The relationship, expressed as a percentage, between the net cash flow of a property and the average amount of invested capital during an operating year. ⁸
cellulose insulation	Insulation alternative to glass fiber insulation. Cellulose insulation is most often a mixture of waste paper and fire retardant, and has thermal properties often superior to glass fiber. Glass fiber batt insulation often contains formaldehyde, which can adversely affect indoor air quality and human health, and the glass fibers themselves are hazardous if inhaled and irritating to the skin and eyes. Specify cellulose insulation with high recycled content for maximum environmental benefit. ⁴
Center for Green Building Research	The goals of the center are to advance understanding of the impacts of green building specifications on energy use, internal environmental quality, and occupants' health, comfort, and productivity, and to use this advanced understanding to motivate improvements in the specifications for green buildings. ¹³

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Word/Phrase	Definition
Center for Maximum Potential Building Systems (cmpbs)	The center is a nonprofit ecological planning and design firm that works with public entities, professional organizations, community groups, universities, and individuals in pursuit of sustainable development policies and practices, ranging from individual buildings to entire regions. ¹³
certificate of occupancy	A document presented by a local government agency or building department certifying that a building and/or the leased area has been satisfactorily inspected and is in a condition suitable for occupancy. ⁸
certified wood	Wood-based materials used in building construction that are supplied from sources that comply with sustainable, forestry practices, protecting trees, wildlife habitat, streams and soil as determined by the Forest Stewardship Council (FSC). ³
charrette	A meeting held early in the design phase of a project, in which the design team, contractors, end users, community stakeholders, and technical experts are brought together to develop goals, strategies, and ideas for maximizing the environmental performance of the project. Research and many projects' experience has indicated that early involvement of all interested parties increases the likelihood that sustainable building will be incorporated as a serious objective of a project, and reduces the soft costs sometimes associated with a green design project. ⁴
chiller	A device that generates a cold liquid that is circulated through an air-handling unit's cooling coil to cool the air supplied to the building. ⁵
chlorofluorocarbons (CFCs)	A family of inert, nontoxic, and easily liquefied chemicals used in refrigeration, air conditioning, packaging, insulation, or as solvents and aerosol propellants. Because CFCs are not destroyed in the lower atmosphere they drift into the upper atmosphere where their chlorine components destroy ozone. (See: fluorocarbons). ⁵
Class "A"	A real estate rating generally assigned to properties that will generate the highest rents per square foot due to their high quality and/or superior location. ⁸
Class "B"	Good assets that most tenants would find desirable but lack attributes that would permit owners to charge top dollar. ⁸

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Word/Phrase	Definition
Class "C"	Buildings that offer few amenities but are otherwise in physically acceptable condition and provide cost-effective space to tenants who are not particularly image-conscious. ⁸
closing costs	The expenses which borrowers incur to complete a loan transaction. These costs may include title searches, title insurance, closing fees, recording fees, processing fees and other charges. ⁹
closing statement	An accounting of funds from a real estate transaction, also known as a HUD. ⁹
cogeneration	The simultaneous production of electrical or mechanical energy (power) and useful thermal energy from the same fuel/energy source such as oil, coal, gas, biomass or solar. ³
commercial mortgage-backed security(ies) (CMBS)	A bond or other investment instrument backed by loans secured with commercial rather than residential property. ¹¹
Commission Internationale de l'Eclairage (CIE)	International lighting commission whose standards, procedures, and definitions are in general use in Europe, but less widely accepted in North America. ¹
commissioning (building)	The process of ensuring installed systems function as specified, performed by a third party Commissioning Authority. Elements to be commissioned are identified, installation is observed, sampling is conducted, test procedures are devised and executed, staff training is verified, and operations and maintenance manuals are reviewed. ⁴
common area	The total area within a property that is not designed for sale or rental but is available for common use by all owners, tenants, or their invitees, e.g., parking and its appurtenances, malls, sidewalks, land-scaped areas, recreation areas, public toilets, truck and service facilities. ¹¹
common area maintenance (CAM)	The expense of operating and maintaining common areas; may or may not include management charges and expenditures on tenant improvements or other improvements to the property. ¹¹
comparable sales	As part of the appraisal process, those relatively recently sold properties which will be compared to the subject property (the property being appraised) for the purpose of forming an opinion of value for the subject property. ⁹

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Word/Phrase	Definition
comparables	A shortened term for similar property sales, rentals, or operating expenses used for comparison in the valuation process; also called 'comps'. ¹¹
completed contract method	In accounting, a method of revenue recognition used in long-term construction contracts when the date of completion cannot be forecast. Revenue and related costs are recognized when the project is completed. ¹¹
component depreciation	Allocating the cost of a building to its various structural components and computing the depreciation in each component based on its useful life. ¹¹
concession (rental)	An inducement for a tenant to lease space, usually in the form of free rent, an additional tenant improvement allowance, moving costs, etc. ¹¹
conduit	An alliance between mortgage originators and an unaffiliated organization that acts as a funding source by regularly purchasing loans, usually with a goal of pooling and securitizing them. ⁸
conduit financing	The financial intermediary that sponsors the conduit between the lender(s) originating loans and the ultimate investor. The conduit makes or purchases loans from third-party correspondents under standardized terms, underwriting, and documents and then, when sufficient volume has been obtained, pools the loans for sale to investors in the commercial mortgage-backed securities (CMBS) market. ¹¹
construction documents	Detailed floor plans, elevations, sections and drawings of specific areas (such as window, door, and staircase details); detailed engineering plans (structural, mechanical, plumbing, electrical, electronic); and detailed written specifications. Construction documents are reviewed after the design development stage. ²
construction loan	Financing arranged for the construction of real estate; generally a short-term, floating-rate debt repaid with the proceeds from permanent financing. Construction loans with a permanent financing commitment are designated as loans "with a takeout commitment" and those that do not have permanent financing are loans "without a takeout commitment." May include an interest carry and/or a very small permanent component to see the property from the post-construction phase through full absorption. ¹¹

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Word/Phrase	Definition
Construction Materials Recycling Association (CMRA)	CMRA provides information on new technologies and campaigns to promote the acceptance and use of recycled construction materials, including concrete, asphalt, wood, and gypsum. ¹³
Construction Specifications Institute (CSI)	This 17,000-member organization seeks to improve the process of creating and sustaining the built environment through engaging all disciplines of the building design and construction process. ¹³
construction waste management	General term for strategies employed during construction and demolition to reduce the amount of waste and maximize reuse and recycling. Construction waste management is a sustainable building strategy in that it reduces the disposal of valuable resources, provides materials for reuse and recycling, and can promote community industries. ⁴
contractor's liability insurance	Insurance purchased and maintained by the contractor to protect the contractor from specified claims which may arise out of, or result from, the contractor's operations under the contract, whether such operation are by the contractor or by any subcontractor, or by anyone directly or indirectly employed by any of them, or by anyone for who acts any of them may be liable. ¹¹
contractor's method	In British and Commonwealth usage, cost approach. ¹¹
cooling load	(See: Building Cooling Load). ⁴
cooling tower	Device which dissipates the heat from water-cooled systems by spraying the water through streams of rapidly moving air. Cooling towers can be substantial water users, and provide an opportunity for water conservation. Many local water providers can supply technical information on water use reduction and may provide incentives for measures with substantial water savings. ⁴
cost approach	A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost, and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised. ¹¹

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Word/Phrase	Definition
cost of capital	The cost to a company, such as a real estate investment trust (REIT), of raising capital in the form of equity (common or preferred stock) or debt. The cost of equity capital generally is considered to include both the dividend rate as well as the expected equity growth either by higher dividends or growth in stock prices. The cost of debt capital is merely the interest expense on the debt incurred. ¹¹
cost segregation	A comprehensive analysis of the total cost or value of building and site improvements, usually not including the value of land and furniture, fixtures, and equipment; the cost of all specific components of the building and site improvements is apportioned according to specific federal tax depreciable life categories. A cost segregation study is usually performed to accelerate overall property depreciation or to establish a correct purchase price allocation for the Modified Accelerate Cost Recovery System (MACRS). ¹¹
cradle-to-cradle	A term used in life-cycle analysis to describe the entire life of a material or product up to the point of disposal. Also refers to a system that handles a product from creation through disposal. ⁶
cradle-to-grave	A procedure in which hazardous materials are identified and followed as they are produced, treated, transported, and disposed of by a series of permanent, linkable, descriptive documents (e.g. manifests). Commonly referred to as the cradle-to-grave system. ⁵
credit enhancement	The credit support needed in addition to the mortgage collateral to achieve a desired credit rating on mortgage-backed securities. The forms of credit enhancement most often employed are subordination, over-collateralization, reserve funds, corporate guarantees and letters of credit. ⁸
credit enhancement	Provisions provided by issuers to reduce default risk in commercial mortgage-backed securities (CMBS), e.g., reserve accounts, cross-collateralization, cross-default, advance payment agreements, loan replacement. ¹¹
critical path method (CPM)	A process used to estimate project duration by sequencing individual project components based on which has the least amount of scheduling flexibility. ²

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Word/Phrase	Definition
cross-collateralization	A grouping of mortgages or properties that serves to jointly secure one debt obligation. ⁸
cross-defaulting	Allows the trustee to call all loans in a group into default when any single loan is in default. ⁸
curable depreciation	Items of physical deterioration or functional obsolescence that is economically feasible to cure. Economic feasibility is indicated if the cost to cure is equal to or less than the anticipated increase in the value of the property. ¹¹
current value	In accounting, synonymous with 'market value'. ¹¹
current value accounting	The practice of showing both the book value and the current market value of assets on the annual financial statements of publicly owned real estate corporations. ¹¹
daylighting	Using natural light in an interior space to substitute for artificial light. Daylighting is considered a sustainable building strategy in that it can reduce reliance on artificial light (and reduce energy use in the process) and when well designed, contributes to occupant comfort and performance. ⁴
debt coverage ratio (DCR)	The ratio of net operating income to annual debt service; measures the ability of a property to meet its debt service out of net operating income; also called debt service coverage ration (DSCR). ¹¹
deed of trust	A legal instrument similar to a mortgage, which, when executed and delivered, conveys or transfers property title to a trustee. ¹¹
default	Failure to meet all of the commitments and obligations specified in the mortgage or deed of trust. Defaults usually give the lender the right to accelerate payments and start foreclosure. ⁹
default ratio	The occupancy level at which the effective gross income from an income-producing property is insufficient to pay operating expenses and debt service, thus creating the risk of default; calculated by dividing effective gross income into operating expenses plus debt service. ¹¹
deferred maintenance	Curable, physical deterioration that should be corrected immediately, although work has not commenced; denotes the need for immediate expenditures, but does not necessarily suggest inadequate maintenance in the past. ¹¹

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Word/Phrase	Definition
delphi survey	A survey of professionals who are especially knowledgeable about market conditions, economic trends, and governmental policies. Such a survey is used to develop a prognostication for a specific industry. ¹¹
Department of Energy, US (DOE)	<p>The Building Technologies Program works closely with manufacturers and the building industry to research and develop technologies and practices for energy efficiency, publicizes energy- and money-saving opportunities to builders and consumers, and works with the state and local regulatory groups to improve building codes and appliance standards.</p> <p>The Building Toolbox (part of the Building Technologies Program) is an electronic resource offering specifics on planning and financing; choosing components; designing, building, and renovating; and operating and maintaining a green commercial building.</p> <p>Guidelines on Integrating Sustainable Design into Site Level Operations – includes information on how to receive Environmental Design Guide for Engineers (EDGE) software and suggested green language for contractor letters of intent.</p> <p>High-Performance Buildings Web Site – an initiative of the DOE, this rich site provides a wide range of practical, hands-on information for those in the building and real estate industries, including a database of high-performance building projects and ongoing research.</p> <p>Office of Energy Efficiency and Renewable Energy (EERE)¹³</p>
depreciation	In appraising, a loss in property value from any cause; the difference between the cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date. In accounting, an allowance made against the loss in value of an asset for a defined purpose and computed using a specified method. ¹¹
derivative securities	Securities that are created artificially, i.e., derived from other financial instruments. In the context of CMBS, the most common derivative security is the interest-only strip. ⁸

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design for environment	An engineering perspective in which the environmentally related characteristics of a product, process, or facility design are optimized. ³
design-build	A method of project delivery in which the owner contracts directly with a single entity that is responsible for both design and construction services for a construction project. Proceeds in a quasi-parallel fashion construction starts before design is completed, and pricing occurs before/during design. ²
detention	In stormwater management, ponding of runoff in pools and basins for water-quality improvement and flood prevention. ¹
developer's fee	A term subject to various interpretations. Many appraisers associate a developer's fee with payment for overseeing the development of a project from inception to completion and include it among the direct and indirect costs of development. Others use the term interchangeably with 'entrepreneurial profit', equating it with compensation for the time, energy, and experience a developer invests in a project as well as a reward for the risk the developer takes. ¹¹
direct capitalization	A method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the income estimate by an appropriate rate or by multiplying the income estimate by an appropriate factor. ¹¹
direct costs	Expenditures for the labor and materials used in the construction of improvements; also called hard costs. ¹¹
direct sunlight (beam sunlight)	That portion of daylight arriving at a specified location directly from the sun, without diffusion. ¹
discount for lack of control	An amount or percentage deducted from the pro rata share of value of 100% of an equity interest in a business to reflect the absence of some or all of the powers of control. ¹¹
discount for lack of marketability	An amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability. ¹¹
discount rate	A yield rate used to convert future payments or receipts into present value. ⁸

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discounted cash flow (DCF) analysis	The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams as well as the quantity and timing of the reversion and discounts each to its present value at a specified yield rate. DCF analysis can be applied with any yield capitalization technique and may be performed on either a lease-by-lease or aggregate basis. ¹¹
	The analysis of cash flow projections, period by period over a presumed term of ownership, to compute the present value for a given rate of return or to compute the internal rate of return indicated by a series of cash flows. ¹⁴
displacement ventilation	Ventilation that uses natural convection processes to move warm air up and out of a volume. Displacement ventilation tends to use less energy than conventional forced air ventilation, as it works with natural convection processes. ⁴
down payment	The portion of the purchase price paid by a buyer to a seller from sources of funds outside of those provided by a lender. ⁹
downstream impacts	Environmental impacts caused by consumer use and product disposal. ³
drought tolerance	The capacity of a landscape plant to function well in drought conditions. ⁴
due diligence	In a property acquisition or investment transaction, the standard investigation of contractual terms and property and market characteristics prior to closing the transaction. ¹¹
easement	A right created by grant, reservation, agreement, prescription or necessary implication to use someone else's property. ⁸
economic depreciation	A decline in the economy that negatively impacts real estate values. ¹¹

Green Building Finance Consortium

Glossary of Words and Phrases

Word/Phrase	Definition
economic feasibility	The ability of a project or enterprise to meet defined investment objectives; an investment's ability to produce sufficient revenue to pay all expenses and charges and to provide a reasonable return on and recapture of the money invested. In reference to a service or residential property where revenue is not a fundamental consideration, economic soundness is based on the need for and desirability of the property for a particular purpose. An investment property is economically feasible if its prospective earning power is sufficient to pay a fair rate of return on its complete cost (including indirect costs), i.e., the estimated value at completion equals or exceeds the estimated cost. ¹¹
economic impact statement	A report detailing a major real estate project's potential impact on the local economy, which may include estimates of the project's market value and potential gross sales as well as indications of its business, occupational, and tax impact on the community. ¹¹
economic life	The period over which improvements to real property contribute to property value. ¹¹
eco-roof	(See: Green Roof). ⁴
effective age	The age of the property that is based on the amount of observed deterioration and obsolescence it has sustained, which may be different from its chronological age. (USPAP , 2002 ed). ¹¹
effective date	The date at which the analysis, opinions, and advice in an appraisal, review, or consulting service apply. ¹¹
effective gross income (EGI)	The anticipated income from all operation of the real property after an allowance is made for vacancy and collection losses. Effective gross income includes items constituting other income, i.e., income generated from the operation of the real property that is not derived from space rental (e.g., parking rental or income from vending machines). ¹¹
effective rent	The rental rate net of financial concessions such as periods of no rent during the lease term; may be calculated on a discounted basis, reflecting the time value of money, or on a simple, straight-line basis. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
embodied energy	The total amount of energy used to create a product, including energy expended in raw materials extraction, processing, manufacturing and transportation. Embodied energy is often used as a rough measure of the environmental impact of a product. ⁴
eminent domain	The right of government to take private property for public use upon the payment of just compensation. The Fifth Amendment of the U.S. Constitution, also known as the takings clause, guarantees payment of just compensation upon appropriation of private property. ¹¹
encumbrance	Any right to or interest in land that affects its value, including mortgage loans, unpaid taxes, easements, junior liens, or deed restrictions. ⁹
energy efficient mortgage (EEM)	EEMs recognize that the monthly energy bill savings from improved energy efficiency can more than offset the increased monthly mortgage cost attributed to energy-efficiency upgrades. Some products allow a higher loan-to-income or debt-to-income ratio while other newer, more innovative products finance 100 percent of all cost-effective energy-efficiency upgrades in the mortgage, thereby eliminating any increased down payment and requalification requirements. ³
energy modeling	Process to determine the energy use of a building based on software analysis. Also called building energy simulation. Common simulation software are DOE-2 and Energy Plus . ⁴
Energy Star	Program administered by the Environmental Protection Agency (EPA) that evaluates products based on energy efficiency. ⁴
engineered lumber/wood	Composite wood products made from lumber, fiber or veneer, and glue. Engineered wood products can be environmentally preferable to dimensional lumber, as they allow the use of waste wood and small diameter trees to produce structural building materials. Engineered wood products distribute the natural imperfections in wood fiber over the product, making them stronger than dimensional lumber. This allows for less material to be used in each piece, another environmental benefit. Potential environmental drawbacks with engineered wood include impacts on indoor environmental quality due to outgassing of chemicals present in binders and glues, and air and water pollution related to production. ⁴

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Glossary of Words and Phrases

Word/Phrase	Definition
environmental footprint	For an industrial setting, this is a company's environmental impact determined by the amount of depletable raw materials and nonrenewable resources it consumes to make its products, and the quantity of wastes and emissions that are generated in the process. Traditionally, for a company to grow, the footprint had to get larger. Today, finding ways to reduce the environmental footprint is a priority for leading companies. An environmental footprint can be determined for a building, city, or nation as well, and gives an indication of the sustainability of the unit. ⁴
environmental impact statement (EIS)	A document required of federal agencies by the National Environmental Policy Act (NEPA) of 1969 for major projects or legislative proposals significantly effecting the environment. A tool for environmental decision making, the EIS describes the positive and negative effects of the undertaking and cites alternative actions. ¹¹
environmental impact study	An investigation to assess the comprehensive, long-range environmental impact of a proposed land use, including both direct and indirect effects over all phases of use. ¹¹
Environmental Protection Agency (EPA)	<p>EPA offers ... technical tools for use in commercial buildings, modeling analysis for ventilation systems and controls, and comprehensive IAQ data for schools and commercial facilities. The agency has also developed software to evaluate the ventilation and humidity control performance of energy recovery systems and to calculate their cost.</p> <p>Indoor Air Quality Building Education and Assessment Model (I-BEAM) Web Site</p> <p>Environmentally Preferable Purchasing (EPP) program</p> <p>National Environmental Compliance Assistance Clearinghouse – resources for the construction industry on compliance with various environmental regulations such as waste water management and stormwater pollution prevention management¹³</p>

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Glossary of Words and Phrases

Word/Phrase	Definition
environmentally preferable products/purchasing	Established by Executive Order 13101 . Products that have a lesser or reduced effect on human health and the environment when compared with competing products that serve the same purpose. The product comparison may consider raw materials acquisition, production, manufacturing, packaging, distribution, reuse, operation, maintenance, or disposal. ³
equity	The value of the unencumbered interest in real estate as determined by subtracting the total of the unpaid mortgage balances plus the sum of any current liens against the property from the property's fair market value. ⁹
equity REIT	A real estate investment trust (REIT) that owns – i.e., has an equity interest in – rental real estate (rather than making loans secured by real estate collateral). ¹¹
Employee Retirement Income Security Act (ERISA)	Legislation passed in 1974 and administered by the Department of Labor (DOL) that controls the investment activities primarily of corporate and union pension plans. More public pension funds are adopting ERISA-like standards. ⁸
estate	The degree, nature, and extent of interest that a person has in real property. ⁹
estoppel certificate	A statement of material facts or conditions on which another person can rely because it cannot be denied at a later date. In real estate, a buyer of rental property typically requests estoppel certificates from existing tenants. ¹¹
exaction	A requirement imposed by a local government that a developer contribute to the community by providing an amenity, paying an impact fee, or making some other monetary contribution as a condition for the right to construct the development. Typical exactions are road rights of way, park land or cash in lieu of park land dedication, and utility or drainage easements. These donations must be roughly proportional to the value of the governmental services that will be required for the new development. For example, a residential developer may be required to dedicate a park to serve the development's residents or to improve the roadway that provides access to the development. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
expected value	A measure of investment risk that employs weighted probabilities. An event is weighted based on the probability of its occurrence. ¹¹
expense stop	A clause in a lease that limits the landlord's expense obligation because the lessee assumes any expenses above an established level. ¹¹
exposure time	The time a property remains on the market... ¹¹ (definition from source considerably shortened)
extraordinary assumption	<p>An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property such as market conditions or trends; or about the integrity of data used in an analysis. An extraordinary assumption may be used in an assignment only if:</p> <ul style="list-style-type: none"> • It is required to properly develop credible opinions and conclusions; • The appraiser has a reasonable basis for the extraordinary assumption; • Use of the extraordinary assumption results in a credible analysis; and • The appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.¹¹
face value	The stated worth of a note, insurance policy, mortgage, etc. Synonymous to 'par value in capital stocks.' ¹¹
fair market value	See market value. ¹¹
Federal Network for Sustainability (FNS)	FNS promotes cost-effective, energy- and resource-efficient operations across all branches of government. ¹³
fee simple estate	Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
fenestration	Any opening, or arrangement of openings, in a building (normally filled with glazing) that admits daylight and any devices in the immediate proximity of the opening that affect light distribution (such as baffles, louvers, draperies, overhangs, light shelves, jambs, sills, and other light-diffusing materials). Fiber optics ¹
feng shui	The Chinese art or practice of positioning objects, especially graves, buildings, and furniture, based on a belief in patterns of yin and yang and the flow of chi that have positive and negative effects. ¹¹
fiduciary	Describes a relationship between two individuals in which one has a duty to act for the benefit of the other, e.g., between guardian and ward; the person so charged. ¹¹
Financial Accounting and Standard Board (FASB)	The agency of the Financial Accounting Foundation (FAF) that is responsible for establishing financial accounting standards. ¹¹
first mortgage	The senior mortgage that, by reason of its position, has priority over all junior encumbrances. The holder has a priority right to payment in the event of default. ⁸
fixed expenses	Operating expenses that generally do not vary with occupancy and that prudent management will pay whether the property is vacant or not. ¹¹
fixed rate mortgage	A mortgage with an interest rate that remains the same through the life of the loan. ⁹
flex space	Industrial space designed to allow flexible conversion of warehouse or manufacturing space to a higher percentage of office space. Alternatively known as a service center or tech space. ¹¹
floor area ratio (FAR)	The relationship between the above-ground floor area of a building, as described by the building code, and the area of the plot on which it stands; in planning and zoning, often expressed as a decimal, e.g., a ration of 2.0 indicated that the permissible floor area of a building is twice the total land area. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
Fluorocarbons (FCs)	Any of a number of organic compounds analogous to hydrocarbons in which one or more hydrogen atoms are replaced by fluorine. Once used in the United States as a propellant for domestic aerosols, they are now found mainly in coolants and some industrial processes. FCs containing chlorine are called chlorofluorocarbons (CFCs). They are believed to be modifying the ozone layer in the stratosphere, thereby allowing more harmful solar radiation to reach the Earth's surface. ⁵
flushout	A process used to remove VOCs from a building by operating the building's HVAC system at 100 percent outside air for a specific period of time. ¹
fly ash	A fine, glass-powder recovered from the gases of burning coal during the production of electricity. Fly ash with a low LOI (carbon content) is used as a substitute for Portland cement in concrete. Substitution of fly ash for Portland cement in concrete is considered a sustainable building strategy, as it reduces the amount of energy-intensive (and Carbon Dioxide-producing) cement in the mix, as well as providing performance enhancements. ⁴
footprint (building)	The area of a building formed by the perimeter of the foundation. Shrinking the footprint of a building allows for more open space and pervious surface on a site. ⁴
footprint (environmental)	See Environmental Footprint. ⁴
foreclosure	A legal term applied to any of the various methods of enforcing payment of the debt secured by a mortgage, or deed of trust, by taking and selling the mortgaged property, and depriving the mortgagor of possession. ¹⁰
formaldehyde	A gas used widely in production of adhesives, plastics, preservatives, and fabric treatments and commonly emitted by indoor materials that are made with its compounds. It is highly irritating if inhaled and is now listed as a probable human carcinogen. ¹
free rent	The occupancy of premises with no rental obligation; typically offered as a rental concession and inducement during periods of oversupply. Free rent may be offered at the beginning or end of a lease term, or staggered through the term. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
freehold investment	Also called ‘freehold subject to lease interests’; has the same meaning as leased fee interest and represents the ownership interest of a lessor owning real property that is subject to (a) lease(s) to others. ¹¹
full-service rent	An all-inclusive rental rate that includes operating expenses and real estate taxes for the first year. The tenant is generally still responsible for any increase in operating expenses over the base year amount. ⁸
fully amortizing mortgage loan	A loan with equal, period payments, usually on a monthly basis, that provides for both a return on investment, or interest, and a return of investment, or recovery of principal, over the term of the loan. ¹¹
functional obsolescence	An element of depreciation resulting from deficiencies or superadequacies in the structure. ¹¹
general contractor	A person or business entity who supervises the erection of structures or other improvements and who may be responsible for subcontractors. ¹¹
general partner	The entity or individual in a limited partnership who has full management responsibility and assumes all personal liability for partnership debt. ¹¹
	Sustainability Web Site
General Service Administration, US (GSA)	Environmental Products and Services Guide – published by the Federal Supply Service (FSS) of GSA and updated annually for use by all federal agencies.
	Real Property Sustainable Development Guide ¹³
glazing	Translucent or transparent element of a window assembly. Glazing can have properties that increase its thermal performance, including low-emissivity coatings, multiple panes, thermally broken spacers, etc. ⁴
global warming potential (GWP)	The ratio of the warming caused by a substance to the warming caused by a similar mass of carbon dioxide. CFC-12, for example, has a GWP of 8,500, while water has a GWP of zero. ⁵
going concern	An operating business enterprise that is expected to continue. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
going concern value	The value of a business enterprise that is expected to continue to operate into the future. The intangible elements of going-concern value result from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place. ¹¹
going-in capitalization rate (R_o)	The overall capitalization rate obtained by dividing a property's net operating income for the first year after purchase by the present value of the property. ¹¹
good will	<ol style="list-style-type: none"> 1. An intangible asset category usually composed of elements such as name or franchise reputation, customer patronage, location, products, and similar factors. 2. The intangible asset that arises as a result of a name, reputation, customer patronage, location, products, and similar factors that have not been separately identified and/or valued but that generate economic benefits.¹¹
grantee	That party in the deed who is the buyer or recipient. ¹⁰
grantor	That party in the deed who is the seller or giver. ¹⁰
gray water reuse	A strategy for reducing wastewater outputs from a building, by diverting the gray water into productive uses such as subsurface irrigation, or on-site treatment and use for non-potable functions such as toilet flushing. Gray water reuse is restricted in many jurisdictions; check with local health and building officials. ⁴
graywater	Graywater (or Greywater) is defined as any wastewater, except in the toilet, produced from baths and showers, clothes washers, and lavatories in a home. ¹
Green Label	A certification program by the Carpet and Rug Institute for carpet and adhesives meeting specified criteria for release of volatile compounds. ⁴
greenfield sites	Greenfield sites are those that are not previously developed or graded and remain in a natural state. Previously developed sites are those that previously contained buildings, roadways, parking lots, or were graded or altered by direct human activities. ¹⁶

Green Building Finance Consortium

Glossary of Words and Phrases

Word/Phrase	Definition
green roof	Contained green space on, or integrated with, a building roof. Green roofs maintain living plants in a growing medium on top of a membrane and drainage system. Green roofs are considered a sustainable building strategy in that they have the capacity to reduce stormwater runoff from a site, they modulate temperature in and around the building, have thermal insulating properties, can provide habitat for wildlife and open space for humans, and other benefits. ⁴
Green Roofs for Healthy Cities (GRHC)	GRHC North America is a nonprofit industry association consisting of public and private organizations and individuals. The organization's mission is to develop a market for green roof infrastructure products and services in cities across North America. ¹³
greenhouse gas	A gas, such as carbon dioxide or methane, which contributes to potential climate change. ⁵
greenwash	Disinformation disseminated by an organization so as to present an environmentally responsible public image. ⁶
gross building area (GBA)	The total floor area of a building, including below-grade space but excluding unenclosed areas, measured from the exterior of the walls. Gross building area for office buildings is computed by measuring to the outside finished surface of permanent outer building walls without any deductions. All enclosed floors of the building including basements, mechanical equipment floors, penthouses, and the like are included in the measurement. Parking spaces and parking garages are excluded. ¹¹
gross leasable area	The portion of total floor area designed for tenants' occupancy and exclusive use, including storage areas. It is the total area that produces rental income. ⁸
gross rent multiplier (GRM)	The relationship or ratio between the sale price or value of a property and its gross rental income. ¹¹
ground cover	Low-growing plants often grown to keep soil from eroding and to discourage weeds. ⁴
ground lease	A lease that grants the right to use and occupy land. Improvements made by the ground lessee typically revert to the ground lessor. ¹¹

Green Building Finance Consortium

Glossary of Words and Phrases

Word/Phrase	Definition
ground rent	Rent paid to the owner for use of land, normally on which to build a building. Generally, the arrangement is that of a long-term lease (e.g. 99 years) with the lessor retaining title to the land. ⁸
groundwater contamination	The introduction of hazardous or toxic material into the underground water supply or aquifers. ¹¹
guarantor	One who makes a guaranty. ⁸
guaranty	Agreement whereby the guarantor assures satisfaction of the debt of another or performs the obligation of another if and when the debtor fails to do so. ⁸
hard cost	See direct costs. ¹¹
hardscape	The part of a building's grounds consisting of structures, such as patios, retaining walls, and walkways, made with hard materials. ¹⁷
hazard insurance	Insurance coverage that compensates for physical damage to a property from fire, wind, vandalism, or other hazards. ¹¹
headlease	A lease to a single entity, which is intended to be the holder of subsequent leases to sublessees that will be the tenants in possession of the leased premises; also called 'master lease'. ¹¹
Healthy Building Network (HBN)	HBN is a national network of green building professionals, environmental and health activists, socially responsible investment advocates, and others interested in promoting healthier building materials as a means of improving public health and preserving the global environment. ¹³
heat exchanger	Device for exchanging heat present in wastewater or stale air to preheat incoming water or air. (For more information on air-to-air heat exchangers, see: heat recovery unit / ventilator). ⁴
heat island effect	A "dome" of elevated temperatures over an urban area caused by structural and pavement heat fluxes, and pollutant emissions. ⁵
heat pump	An electric device with both heating and cooling capabilities. It extracts heat from one medium at a lower (the heat source) temperature and transfers it to another at a higher temperature (the heat sink), thereby cooling the first and warming the second. ⁵

Green Building Finance Consortium

Glossary of Words and Phrases

Word/Phrase	Definition
heat recovery unit / ventilator	An air-to-air heat exchanger with balanced exhaust and supply fans that meet all necessary ventilation needs without producing drafts or air pressure imbalance on a heating or cooling system. ⁴
highest and best use	The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. ¹¹
historical cost	The cost of a property when it was originally constructed. ¹¹
holdbacks	A portion of a loan commitment that is not funded until an additional requirement is met, such as completion of construction. ⁸
holding period	The term of ownership of an investment. ¹¹
hybrid REIT	A real estate investment trust (REIT) that combines the investment strategies of both equity REITs and mortgage REITs. ¹¹
hydrocarbons (HC)	Chemical compounds that consist entirely of carbon and hydrogen. ⁵
hypothesis	In inferential statistics, a statement to be proved. One begins with a null hypothesis, a statement of what one chooses to accept in the absence of sufficient evidence to the contrary, specified as the alternative hypothesis (antithesis) to be proved, and analyzes the available data to determine if the null hypothesis can be rejected and the alternative hypothesis accepted with some confidence. ¹¹
improvements	Building or other relatively permanent structures or developments located on, or attached to, land. ¹¹
incentive zoning	An agreement between public officials and private developers concerning rentable building area and the minimum building bulk specified by the zoning ordinance. In this arrangement, a desirable public improvement or open-space objective is established by government officials, and developers are offered greater usable building area as an incentive to provide the desired amenity. Planned unit developments and voluntary cluster developments are forms of incentive zoning. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
income capitalization approach	A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate. ¹¹
incurable functional obsolescence	An element of depreciation; a defect caused by a deficiency or superadequacy in the structure, materials, or design, which cannot be practically or economically corrected. ¹¹
indirect costs	Expenditures or allowances for items other than labor and materials that are necessary for construction, but are not typically part of the construction contract. Indirect costs may include administrative costs; professional fees; financing costs and the interest paid on construction loans; taxes and the builder's or developer's all-risk insurance during construction; and marketing, sales, and lease-up costs incurred to achieve occupancy or sale. Also called soft costs. ¹¹
indoor air quality (IAQ)	According to the U.S. Environmental Protection Agency (EPA) and National Institute of Occupational Safety and Health (NIOSH), the definition of good indoor air quality includes (1) introduction and distribution of adequate ventilation air; (2) control of airborne contaminants; and (3) maintenance of acceptable temperature and relative humidity. According to ASHRAE Standard 62-1989, indoor air quality is defined as "air in which there are no known contaminants at harmful concentrations as determined by cognizant authorities and with which a substantial majority (80 percent or more) of the people exposed do not express dissatisfaction." ¹
indoor environmental quality (IEQ)	LEED Rating System category. Prerequisites and credits in this category focus on the strategies and systems that result in a healthy indoor environment for building occupants. ³

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Glossary of Words and Phrases

Word/Phrase	Definition
institutional-grade property	Various types of real estate properties generally owned or financed by tax-exempt institutional investors. Core investments typically include office, retail, industrial and apartments. Specialty investments include hotels, congregate care facilities, land beneath existing improvements, vacant land, mixed-use properties (i.e., a property containing at least two property types) and mobile home parks. ⁸
intangible property	Nonphysical assets, including but not limited to franchises, trademarks, patents, copyrights, good will, equities, mineral rights, securities, and contracts, as distinguished from physical assets such as facilities and equipment. ¹¹
intangible value	A value that cannot be imputed to any part of the physical property, e.g., the excess value attributable to a favorable lease or mortgage, the value attributable to good will. ¹¹
integrated waste management	The complementary use of a variety of practices to handle solid waste safely and effectively. Techniques include source reduction, recycling, composting, combustion and landfilling. ⁶
integration	An essential concept in sustainable building. Viewing a building as a system allows the discovery of synergies and potential tradeoffs or pitfalls with design choices. An integrated design approach helps maximize synergies and minimize unintended consequences. ⁴

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Glossary of Words and Phrases

Word/Phrase	Definition
internal rate of return (IRR)	<p>The annualized yield rate or rate of return on capital that is generated or capable of being generated within an investment or portfolio over a period of ownership. The IRR is the rate of discount that makes the net present value of the investment equal zero. The IRR discounts all returns from the investment, including returns from its reversion, to equal the original capital outlay. This rate is similar to the equity yield rate. As a measure of investment performance, the IRR is the rate of discount that produces a profitability index of one and a net present value of zero. It may be used to measure profitability after income taxes, i.e., the after-tax equity yield rate.¹¹</p> <p>The annualized rate of return on capital that is generated or is capable of being generated internally within an investment or portfolio during the period of ownership. The internal rate of return is similar to the equity yield rate and is often used as a measure of profitability after income taxes, i.e., the after-tax equity yield rate; sometimes used as a synonym for a ‘corporate rate of return’ not recommended (many analysts prefer to view the internal rate of return as the result of calculation rather than a specified or desired rate of return); the rate of discount that makes the net present value of an investment equal to zero.¹⁴</p>
International Interior Design Association (IIDA)	<p>IIDA is a professional networking and educational association committed to enhancing the quality of life through excellence in interior design and advancing interior design through knowledge. The IIDA Foundation is a not-for-profit philanthropic organization that works in collaboration with IIDA. It offers the Sustainable Design Education Fund to advance awareness and knowledge of sustainable design.¹³</p>
investment manager	<p>Any company or individual that assumes discretion over a specified amount of real estate capital, invests that capital in assets via a separate account, co-investment program or commingled fund, and provides asset management.⁸</p>
investment value	<p>The specific value of an investment to a particular investor or class of investors based on individual investment requirements; distinguished from market value, which is impersonal and detached.¹¹</p>
joint venture	<p>An investment entity formed by one or more entities to acquire or develop and manage real property and/or other assets.⁸</p>

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Glossary of Words and Phrases

Word/Phrase	Definition
Kyoto Protocol	<p>From December 1 through 11, 1997, more than 160 nations met in Kyoto, Japan, to negotiate binding limitations on greenhouse gases for the developed nations, pursuant to the objectives of the Framework Convention on Climate Change of 1992. The outcome of the meeting was the Kyoto Protocol, in which the developed nations agreed to limit their greenhouse gas emissions, relative to the levels emitted in 1990. The United States' target is to reduce emissions from 1990 levels by 7 percent during the period 2008 to 2012.³</p>
landlord	<p>The owner of real estate that is leased to others.¹¹</p>
Leadership in Energy and Environmental Design (LEED)	<p>Green building rating system developed by the US Green Building Council (USGBC). LEED stands for Leadership in Energy and Environmental Design, and evaluates a building from a systems perspective. By achieving points in different areas of environmental performance, a building achieves a level of "certification" under the system.⁴</p> <p>Existing LEED v2.2 standard categories:</p> <ul style="list-style-type: none"> • LEED-NC: New commercial construction and major renovation projects • LEED-EB: Existing building operations • LEED-CI: Commercial interiors projects • LEED-CS: Core and shell projects • LEED-H: Homes • LEED-ND: Neighborhood Development

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Glossary of Words and Phrases

Word/Phrase	Definition
lease	<p>A written contract in which the rights to use and occupy land or structures are transferred by the owner to another for a specified period of time in return for a specified rent.</p> <p>Lease Categories:</p> <p style="padding-left: 20px;"><u>By Treatment of Expenses:</u></p> <ul style="list-style-type: none"> • gross lease • net lease • net net lease • net net net lease • absolute net lease <p style="padding-left: 20px;"><u>By Rent Provisions:</u></p> <ul style="list-style-type: none"> • escalator lease • flat rental lease • graduated rental lease • gross-up lease • index lease • percentage lease • revaluation lease¹¹
lease rollover	The expiration of a lease and the subsequent re-leasing of the space. ¹¹
leased fee interest	An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease. ¹¹
leasehold estate	A way of holding title to a property wherein the mortgagor does not actually own the property but rather has a recorded long-term lease on it. ⁹
leasehold financing	A form of secondary financing in which a mortgage is secured by the tenant's interest in a property. ¹¹
leasehold im- provements	Improvements or additions to leased property that have been made by the lessee. ¹¹
leasehold interest	The interest held by the lessee (tenant or renter) through a lease transferring the rights of use and occupancy for a stated term under certain conditions. ¹¹
leasehold loan	A loan received by the lessee on improvements and the leasehold interest in leased property. ¹¹

Green Building Finance Consortium

Glossary of Words and Phrases

Word/Phrase	Definition
leasing commissions	Fees paid to an agent leasing tenant space. When leasing fees are spread over the term of a lease or lease renewal, they are treated as a variable operating expense. Initial leasing fees usually fall under capital expenditures for development and are not included among periodic expense. ¹¹
lessee	One who has the right to use or occupy a property under a lease agreement; the leaseholder or tenant. ¹¹
lessor	One who holds property title and conveys the right to use and occupy the property under a lease agreement; the leased fee owner or landlord. ¹¹
letter of credit	A letter issued by a financial institution that certifies that the person named is entitled to draw on the institution up to a stipulated sum under certain conditions. ¹¹
letter of intent	An instrument that expresses the intent to invest, buy, or lease, conditioned on the receipt and approval of further documentation or the issuance of a qualification permit. A letter of intent is not a binding agreement. ¹¹
leverage	The effect of borrowed funds, which may increase or decrease the return that would be realized on equity free and clear. ¹¹
liability insurance	Insurance coverage that offers protection against claims alleging that a property owner's negligence or inappropriate action resulted in bodily injury or property damage to another party. ¹¹
LIBOR (London InterBank Offered Rate)	The interest rate offered on Eurodollar deposits traded between banks, also called swaps. ⁸
lien	A claim by one person on the property of another as security for money owed. Such claims may include obligations not met or satisfied, judgments, unpaid taxes, materials, or labor. (See also special lien). ¹⁰

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Glossary of Words and Phrases

Word/Phrase	Definition
life-cycle analysis (LCA)	Life-Cycle-Analysis or Assessment (or LCA) is the study of the environmental impacts of a product or service over its entire life cycle, from the extraction of raw materials, through to the consumption and final disposal of the product. It is a concept and a method to evaluate the environmental effects of a product or activity holistically, by analyzing the entire life cycle of a particular product, process, or activity. Life-cycle assessment is typically described in three complementary phases: inventory analysis, impact assessment, and improvement assessment. ¹
life-cycle costing	An analysis of the cost of an investment over its economic or useful life; often related to building energy costs. Life-cycle costs are based on the discounted present value of the aggregate future payments or benefits derived from current investments. Life-cycle costing illustrates the trade-offs between additional dollars invested today and reduced costs incurred in the future. ¹¹
light shelf	A horizontal device positioned (usually above eye level) to reflect daylight onto the ceiling and to shield direct sunlight from the area immediately adjacent to the window. The light shelf may project into the room, beyond the exterior wall plane, or both. The upper surface of the shelf may be specular or non-specular but should be highly reflective (that is, having 80 percent or greater reflectance). ¹
limited liability company (LLC)	A relatively new and flexible business ownership structure. Particularly popular with small businesses, the LLC offers its owners the advantage of limited personal liability (like a corporation) and a choice of how the business will be taxed. Partners can choose for the LLC to be taxed as a separate entity (again, like a corporation) or as a partnership-like entity in which profits are passed through to partners and taxed on their personal income tax returns. ¹¹
limited partnership	An ownership arrangement consisting of general and limited partners. General partners manage the business and assume full liability for partnership debt, while limited partners are passive and liable only to the extent of their own capital contributions. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
limiting condition	A special condition that limits the use of an appraisal, e.g., by specifying the intended use and intended user of the appraisal report. A statement of general assumptions and limiting conditions is often included in the discussion of the premises of the appraisal in the appraisal report for the appraiser's protection as well as the information and protection of the client and others using the report. ¹¹
liquidity	The ease with which assets can be converted to cash without loss in value. ⁸
loan commitment	A written promise from a lender to loan a specified sum at a certain rate of interest for a specified term; usually a fee is paid for this commitment. ¹¹
loan origination	The process by which a mortgage lender brings into existence a mortgage secured by real property. ¹¹
loan servicing	The administration and collection of monthly mortgage payments from home owners and other borrowers; usually performed by a bank, servicing agent, mortgage broker, or real estate company acting for itself or the mortgage. ¹¹
loan-to-value ratio (M)	The ratio between a mortgage loan and the value of the property pledged as security, usually expressed as a percentage; also called loan ratio. ¹¹
Local / regional materials	Building products manufactured and/or extracted within a defined radius of the building site. For example, the US Green Building Council (USGBC) defines local materials as those that are manufactured, processed, and/or extracted within a 500-mile radius of the site. Use of regional materials is considered a sustainable building strategy due to the fact that these materials require less transport, reducing transportation-related environmental impacts. Additionally, regional materials support local economies, supporting the community goal of sustainable building. ⁴
long-term lease	Generally a lease agreement extending for 10 years or more. The terms and provisions of a long-term lease are customarily set forth in detail in legally correct and complete form. Under such leases the tenant may desire, or be required, to do extensive remodeling or, if the property leased is land, to construct a building and other improvements. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
low-emittance (low-E) windows	Windows with a thin, invisible, metallic coating on one or more glazing surfaces that reduces the radiation of heat from windows. Low-e glass has a thin, invisible coating that reduces the flow of radiant heat through windows. The most common coating reduces solar heat gain and increases resistance to radiant heat loss through windows. ³
lumen (lm)	The luminous flux emitted (within a unit solid angle or one steradian) by a point source having a uniform luminous intensity of one candela. ¹
management agreement	A contract between the owner of property and someone who agrees to manage it. ⁹
management fee	An expense item representing the sum paid or the value of management service; a variable operating expense, usually expressed as a percentage of effective gross income. ¹¹
market rent	<p>The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the specified lease agreement including term, rental adjustment and revaluation, permitted uses, use restrictions, and expense obligations; the lessee and lessor each acting prudently and knowledgeably, and assuming consummation of a lease contract as of a specified date and the passing of the leasehold from lessor to lessee under conditions whereby:</p> <ol style="list-style-type: none"> 1. Lessee and lessor are typically motivated. 2. Both parties are well informed or well advised, and acting in what they consider their best interests. 3. A reasonable time is allowed for exposure in the open market. 4. The rent payment is made in terms of cash in United States dollars, and is expressed as an amount per time period consistent with the payment schedule of the lease contract. 5. The rental amount represents the normal consideration for the property leased unaffected by special fees or concessions granted by anyone associated with the transaction.¹¹
market rental rates	The rental income that a property most likely would command in the open market, indicated by the current rents asked and paid for comparable space. ⁸

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Glossary of Words and Phrases

Word/Phrase	Definition
market study	A forecast of future demand for a certain type of real estate project that includes an estimate of the square footage that can be absorbed and the rents that can be charged. ⁸
market value	<p>The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.</p> <p>The International Valuation Standards Committee (IVSC) defines market value for the purpose of international standards as follows: <i>Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.</i>¹¹</p> <p>(Definition shortened considerably from original)</p>
marketability	The relative desirability of a property (for sale or lease) in comparison with similar or competing properties in the area. That is, a property with poor marketability would be inferior to competing properties in terms of location, condition, access, etc. Conversely, a property with good marketability has superior features or condition in comparison with competing properties. ¹¹
marketing time	The time it takes an interest in real property to sell on the market subsequent to the date of an appraisal. ¹¹
master lease	A lease controlling subsequent leases. ¹¹
material safety datasheet (MSD)	A compilation of information required under the OSHA Communication Standard on the identity of hazardous chemicals, health, and physical hazards, exposure limits, and precautions. Section 311 of SARA requires facilities to submit MSDSs under certain circumstances. ⁵
maturity	The date on which the principal balance of a loan, bond, or other financial instrument becomes due and payable. ⁹

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Glossary of Words and Phrases

Word/Phrase	Definition
metropolitan statistical area (MSA)	A city of at least 50,000 people; an urbanized area of at least 50,000 with a total metropolitan population of at least 100,000; designated under standards set in 1980 by the Federal Committee on MSAs. This term replaces the term standard metropolitan statistical area. ¹¹
mezzanine financing	Mezzanine financing is somewhere between equity and debt. It is that piece of the capital structure that has senior debt above it and equity below it. There is both equity and debt mezzanine financing, and it can be done at the asset or company level, or it could be unrated tranches of CMBS. Returns are generally in the mid- to high-teens. ⁸
minority discount	A discount for lack of control applicable to a minority interest. ¹¹
minority interest	An ownership interest less than 50% of the voting interest in a business enterprise. ¹¹
mixed-use	Space within a building or project providing for more than one use. ⁸
modern portfolio theory (MPT)	An approach to quantifying risk and return in a portfolio of assets. Developed in 1959 by Harry Markowitz, MPT is the foundation for present-day principles of investment diversification. It emphasizes the portfolio rather than individual assets, and how assets perform in relation to each other based on the assumption that investors can benefit from diversification when asset class returns do not move in lock step with one another. ⁸
modified gross lease	A lease in which the landlord receives stipulated rent and is obligated to pay most, but not all, of the property's operating expenses and real estate taxes. ¹¹
modified internal rate of return (MIRR)	A measure of investment performance; similar to the internal rate of return except that negative cash flows, if any, are discounted to present value at a specified safe rate and positive cash flows are presumed to be reinvested to grow with compound interest at either the same specified safe rate or at a specified market rate until the termination of the investment; also called adjusted internal rate of return. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
mold	Mold is a fungus that typically grows in a filamentous cobweb-like mass under damp conditions and is capable of producing staggering numbers of reproductive spores in as little as a few days. Molds are non-chlorophyll containing entities, which require organic matter, living or dead, for survival. Mold is a critical participant in the "recycling" of dead organic material on the planet. Molds are extraordinarily diverse in character and their relationship with humans span the positive (e.g., food, antibiotics) to the negative (e.g., pathogens, antigens, toxins). ³
Monte Carlo simulation	A gaming studies model for risk analysis in which specific investment elements are assigned probabilities and integrated into a larger theoretical population; repeated sampling from this larger group provides a range of possible outcomes. ¹¹
mortgage	A pledge of a described property interest as collateral or security for the repayment of a loan under certain terms and conditions. ¹¹
mortgage banker	A person or company that makes mortgage loans with its own funds on its own behalf, usually in expectation of reselling the loans to lenders at a profit and then servicing the loans. ¹¹
mortgage broker	One who places mortgages, i.e., finds appropriate borrowers or willing lenders for a fee, which is usually a percentage of the loan amount. ¹¹
mortgage correspondent	One who acts as an agent for national lenders, making loan commitments for them using their standards of acceptability; may also service loans for the lender for an additional fee. ¹¹
mortgage lien	A filed charge using property as security. Often mortgage liens are obtained by contractors or material suppliers for a particular project. ¹¹
mortgage note	A document or a clause in a document in which the borrower accepts responsibility for the repayment of a debt. ¹¹
mortgage REIT	A real estate investment trust (REIT) that makes or owns loans and other obligations that are secured by real estate collateral. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
mortgage revenue bonds	Tax-exempt bonds sold by state and local governments or state housing finance agencies to pay for the acquisition, repair, or construction of real estate. Because the interest earned by bondholders is exempt from federal and possible state and local taxation, the bonds are sold at a lower interest rate than taxable bonds; tax-exempt, lower-than-market interest rates are charged to borrowers because the interest savings on the bonds are passed on to the borrowers; also called 'mortgage subsidy bonds'. ¹¹
mortgage risk rating	A process in which the major risks undertaken in the making of a mortgage are thoroughly analyzed in accordance with the risk involved in the loan transaction or in connection with insurance of the mortgage; a basis for classifying mortgages as to their quality as investments. ¹¹
mortgage term	The amount of time, specified in the mortgage contract, in which the mortgage loan must be paid off; for example, the loan may be amortized over 25 years and due in 5 years. ¹¹
mortgage-backed securities	An investment instrument that represents ownership of an undivided interest in a group of mortgages; bond-type securities generally backed by a pool of mortgages or trust deeds. ¹¹
mortgagee	A party who advances funds for a mortgage loan and in whose favor the property is mortgaged; the lender. ¹¹
mortgagor	The borrower in a mortgage agreement. ¹⁰
National Institute of Standards and Technologies (NIST)	Building for Environmental and Economic Sustainability (BEES) – green buildings decision support software developed by NIST to help select cost-effective, environmentally preferable building products. ¹³ www.bfrl.nist.gov/oe/software/bees.html
native vegetation	A plant whose presence and survival in a specific region is not due to human intervention. Certain experts argue that plants imported to a region by prehistoric peoples should be considered native. The term for plants that are imported and then adapt to survive without human cultivation is naturalized. ¹
natural cooling	Use of environmental phenomena to cool buildings, e.g., natural ventilation, evaporative cooling, and radiative cooling. ¹

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Glossary of Words and Phrases

Word/Phrase	Definition
natural ventilation	Ventilation design that uses existing air currents on a site and natural convection to move and distribute air through a structure of space. Strategies include placement and operability of windows and doors, thermal chimneys, landscape beams to direct airflow on a site, and operable skylights. ⁴
NCREIF Property Index	An index compiled by the National Council of Real Estate Fiduciaries (NCREIF) that measures the performance of the combined portfolios of member institutions. Only improved, unleveraged properties held by members are included. Originally developed by the Frank Russell Company in conjunction with NCREIF. ¹¹
net cash flow	Generally determined by net income plus depreciation less principal payments on long-term mortgages. ⁸
net effective rent	Rental rate adjusted for lease concessions. ¹¹
net lease	Generally a lease in which the tenant pays for utilities, janitorial services, and either property taxes or insurance, and the landlord pays for maintenance, repairs, and the property taxes or insurance not paid by the tenant. ¹¹
net net lease	Generally a lease in which the tenant pays for utilities, janitorial services, property taxes, and insurance in addition to the rent, and the landlord pays for maintenance and repairs. ¹¹
net net net lease	A net lease under which the lessee assumes all expenses of operating a property, including both fixed and variable expenses and any common area maintenance that might apply, but the landlord is responsible for structural repairs. ¹¹
net operating income (NOI)	The actual or anticipated net income that remains after all operating expenses are deducted from effective gross income, but before mortgage debt service and book depreciation are deducted; may be calculated before or after deducting replacement reserves. ¹¹
net present value (NPV)	The difference between the present value of all expected investment benefits, or positive cash flows, and the present value of capital outlays, or negative cash flows. For purposes of real property valuation, negative cash flows include the initial cash outlay required to purchase the property. Generally, when NPV is positive, the investment is acceptable; if NPV is zero, the investment is neutral; and when NPV is negative, the investment is unacceptable. Also called dollar reward. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
night flushing	The process of removing hot air from a building during the cool evening hours, to cool elements with thermal mass within the building and flush stale air. ⁴
noise criteria (NC)	Series of curves of octave-band sound pressure levels from 63 to 8000 Hertz. They are commonly used in the United States to rate interior noise levels. ¹
noise reduction (NR)	The simple loss of sound level that occurs in passing through a medium. Most often noise reduction refers to a single octave or one-third octave-band noise. ¹
noise reduction coefficient (NRC)	Average of the sound absorption coefficient of the four octave bands 250, 500, 1,000, and 2,000 Hertz rounded to the nearest 0.05. ¹
nonrecourse loan	Debt agreement secured by real estate that provides that the lender has no claim against the debtor in the event of default, but can only recover the property. ¹¹
nonrenewable energy	Energy derived from depletable fuels (oil, gas, coal) created through lengthy geological processes and existing in limited quantities on the earth. ⁶
obsolescence	One cause of depreciation; an impairment of desirability and usefulness caused by new inventions, changes in design, improved processes for production, or external factors that make a property less desirable and valuable for a continued use; may be either functional or external. ¹¹
occupancy cost	The periodic expenditure of money necessary to occupy a property, excluding expense directly attributable to the operation of a business. For a tenant, occupancy costs constitute the rent and reimbursables (expense reimbursements to the landlord as specified in the lease), which may include items such as heat, utilities, janitor service, taxes not included in the rent, and amortization of the tenant's costs of alterations over the term of the lease. ¹¹
occupancy rate	The relationship or ratio between the income received from the rented units in a property and the income that would be received if all the units were occupied. ¹¹
occupancy sensor	A sensing device, commonly connected to a room's lighting but also occasionally to heating or ventilation, that shuts down these services when the space is unoccupied. ⁴

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Glossary of Words and Phrases

Word/Phrase	Definition
octave band	A group of frequencies whose lower boundary is one-half of the upper boundary. In acoustics, the first nine octave bands are identified by their center frequencies of 31.5, 63, 125, 250, 500, 1,000, 2,000, 4,000, and 8,000 Hertz. The 31.5 band is also referred to as the band number 0, and 63 Hertz is band number 1. ¹
offgas/outgas	A process of evaporation or chemical decomposition through which vapors are released from materials. ¹
off-site costs	Costs incurred in the development of a project, excluding actual building construction costs, e.g., the cost of streets, sidewalks, curbing, traffic signals, water and sewer mains; also called common costs or off-site improvement costs. ¹¹
off-site improvements	Improvements such as streets, sidewalks, curbing, traffic signals, and water and sewer mains. ¹¹
on-site improvements	Improvements such as grading, landscaping, fences, gutters, paving, drainage and irrigation systems, walks, and other physical enhancements to the land. ¹¹
operating expense	The actual costs associated with operating a property, including maintenance, repairs, management, utilities, taxes and insurance. ⁸
operating expense ratio (OER)	The ratio of total operating expenses to effective gross income (TOE/EGI); the complement of the net income ratio (1-NIR). ¹¹
operating or service lease	In accounting practice, a lease whereby the lessor maintains and services the leased property, which is generally equipment. This type of lease allows the lessee to return the property and terminate the lease at any time. According to a Federal Interagency Bulletin of June 7, 1994, operating leases “which are not equivalent to the purchase or sale of the leased property” do not require Title XI appraisals, “given the limited real estate interest such leases represent.” ¹¹
operating statement	A financial statement that reflects the gross revenues, expenses, and net operating profit or loss of an investment over a fixed period. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
operations and maintenance (O&M)	An ongoing maintenance program for contaminated properties. For example, for asbestos mitigation it could include training, HEPA vacuuming, wet cleaning, and air monitoring. This is also termed 'end removal', as the contaminants remain until the eventual demolition of the building. ¹¹
origination fee	A fee paid to a lender for processing a loan application. The origination fee is stated in the form of points. One point is 1% of the mortgage amount. ¹¹
outgoings	The expenses incurred in generating income. In real estate, these expenses include but are not necessarily limited to property tax, insurance, repairs and maintenance, and management fees. Operating expenses when subtracted from gross income equal net operating income. ¹¹
overall capitalization rate (R_o)	An income rate for a total real property interest that reflects the relationship between a single year's net operating income expectancy and the total property price or value; used to convert net operating income into an indication of overall property value. ¹¹
ozone	A bluish gas that is harmful to breathe, but is a necessary component of the atmosphere because it absorbs a band of ultraviolet radiation (UVB) that is harmful to living things. ²
parking ratio	The number of available parking spaces per rentable unit of area, residential unit, hotel room, restaurant seat, etc.; also, the ratio of total parking area to gross leasable area. The parking ratio is a standard comparison that indicates the relationship between parking spaces or parking area and an economic or physical unit of comparison. ¹¹
participating debt	In addition to collecting a contract interest rate, participating debt allows the lender to have participatory equity rights through a share of increases in income and/or increases in residual value over the loan balance or original value at the time of loan funding. ⁸
passive solar	Strategies for using the sun's energy to heat (or cool) a space, mass, or liquid. Passive solar strategies use no pumps or controls to function. A window, oriented for solar gain and coupled with massing for thermal storage (e.g., a Trombe wall) is an example of a passive solar technique. ⁴

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Glossary of Words and Phrases

Word/Phrase	Definition
payback period	The length of time required for the stream of cash flows produced by the investment to equal the original cash outlay. ¹¹
percentage lease	A lease in which the rent or some portion of the rent represents a specified percentage of the volume of business, productivity, or use achieved by the tenant. ¹¹
percentage rent	Rent payable under a lease that is equal to a percentage of gross sales or gross revenues received by the tenant. It is commonly used in retail center leases. ⁸
permanent loan	A long-term loan used to finance the purchase and operation of a completed structure; as distinguished from temporary loans, e.g., land and construction loans. ¹¹
photometer	An instrument for measuring photometric quantities, such as luminance, luminous intensity, luminous flux, and illuminance. ¹
photovoltaic (PV) cell	An electronic device consisting of layers of semiconductor materials fabricated to form a junction (adjacent layers of materials with different electronic characteristics) and electrical contacts and being capable of converting incident light directly into electricity (direct current). ⁷
physical deterioration	An element of depreciation; loss in value caused by wear, tear, age and use. ¹¹
physical life	The total period a building lasts or is expected to last as opposed to its economic life. ¹¹
planned unit development (PUD)	A highly designed residential project that features relatively dense clusters of houses, which are usually surrounded by areas of commonly owned open space maintained by a non-profit community association. ⁹
precautionary principle	When information about potential risks is incomplete, basing decisions about the best ways to manage or reduce risks on a preference for avoiding unnecessary health risks instead of on unnecessary economic expenditures. ⁵
preferred stock	A share of ownership that has prior claim on a company's earnings, before dividends on the common stock may be paid, as well as prior claim on the company's assets in the event of liquidation. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
prepayment penalty	An extra charge incurred by a borrower who pays a mortgage or other debt instrument before its due date; provided for in the debt instrument and usually expressed as a percentage of the loan; may be limited or prohibited in some states. ¹¹
primary metropolitan statistical area (PMSA)	An area of more than one million people that consists of a large, urbanized county or a cluster of counties with very strong internal economic and social links; designated under standards established in 1980 by the Federal Committee of MSAs. ¹¹
private mortgage insurance (PMI)	Insurance provided by a private mortgage lender to protect against loss caused by a borrower's default on a residential or commercial mortgage loan. ¹¹
pro forma	A financial balance sheet or income statement for a business prepared by an accountant; in appraisal, a statement used to protect gross income, operating expenses, and net operating income for a future period based on specified expectations; also called pro forma statement. In preparing a pro forma statement, appraisers may use reconstructed operating statements and other market-derived comparable income and expense data. ¹¹
pro rata	In the case of a tenant, the proportionate share of expenses for the maintenance and operation of the property. ⁸
productivity	<ol style="list-style-type: none"> 1. The amount of goods produced by labor, or other agents of production, per unit of time. 2. The net value of the services provided per unit of space. 3. The income or benefits a property is capable of providing, which depend on the physical and locational attributes of the site and improvements as well as the legal entitlements and regulatory constraints imposed by local, state, and federal governments. 4. The capacity of a soil to produce crops in the existing environment under a specified system of management.¹¹
productivity analysis	The first step in market analysis in which the appraiser or analyst identifies which features of the subject property shape productive capabilities and potential uses of the property. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
promissory note	A legal instrument, agreement, or contract made between a lender and a borrower by which the lender conveys to the borrower a sum or other consideration known as principal for which the borrower promises repayment of the principal plus interest under conditions set for in the agreement. ¹¹
prospective value opinion	A forecast of the value expected at a specified future date. A prospective value opinion is most frequently sought in connection with real estate projects that are proposed, under construction, or under conversion to a new use, or those that have not achieved sellout or a stabilized level of long-term occupancy at the time the appraisal report is written. ¹¹
public good	An economic good that is used or enjoyed collectively and is often furnished by government, e.g., public education, parks, museums; as distinguished from a free good. ¹¹
public interest value	A general term covering a family of value concepts that relate the highest and best use of property to noneconomic uses such as conservation and preservation . . . ¹¹ (considerably shorted from the original definition)
rating	Grade, assigned by a rating agency, designating the credit quality or creditworthiness of the underlying assets. ⁸
rating agency	The agency that examines the securities and its underlying collateral and rates the securities based on its benchmarks. Ratings range from AAA (highest rating) to CCC (the lowest rating possible). They are a major influence on commercial mortgage-backed security (CMBS) structure, viability, and pricing. The four rating agencies for CMBS are Standard & Poor's Ratings Group, Moody's Investor Service, Fitch Investor Services, and Duff and Phelps Credit Rating Company. ¹¹
real estate investment trust (REIT)	A corporation or trust that combines the capital of many investors to acquire or provide financing for all forms of real estate. A REIT serves much like a mutual fund for real estate . . . ¹¹ (considerably shortened from the original definition)
real estate operating company (REOC)	A real estate equity, which is publicly traded in capital markets. ¹¹
reclaimed water	Wastewater that has been treated for use in irrigation and certain industrial applications, such as boiler makeup water for an energy plant. ²

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Glossary of Words and Phrases

Word/Phrase	Definition
reconciliation	The last phase of any valuation assignment in which two or more value indications derived from market data are resolved into a final value opinion, which may be either a final range of value or a single point estimate. ¹¹
recourse	A lender's right to seek from a borrower in default on a loan compensation beyond the property pledged as collateral. ¹¹
reinsurance	The reassignment of all or part of the insurance carried from one company to another. ¹¹
remaining economic life	The estimated period during which improvements will continue to contribute to property value; an estimate of the number of years remaining in the economic life of the structure or structural components as of the date of the appraisal; used in the age-life method of estimating depreciation. ¹¹
remaining useful life	The estimated period during which improvements will continue to contribute to property value; an estimate of the number of years remaining in the useful life of the structure or structural components as of the date of the appraisal; used in the breakdown method of estimating depreciation. ¹¹
renewable energy	Renewable energy is an energy resource that is replaced rapidly by natural processes. Some examples of renewable energy resources are sunlight, wind, geothermal, micro scale hydropower, and wood. When you use some sunlight to warm your building, more is made almost immediately available. Water flowing in the river or creek is continually replaced by rainfall. If you chop down a tree and burn its wood in your campfire, it takes awhile for the forest to grow enough to replace that wood, but it will happen within your lifetime. ¹
rent loss insurance	Insurance that protects a landlord against loss of rent or rental value due to fire or other casualty that renders the leased premises unavailable for use and as a result of which the tenant is excused from paying rent. ¹¹
rent roll	A report that is prepared regularly, usually each month, and indicated the rent-paying status of each tenant. ¹¹
rental concession	What landlords offer tenants to secure their tenancy. While rental abatement is one form of a concession, there are many others such as increased tenant improvement allowance, signage, below-market rental rates and moving allowances. ⁸

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Glossary of Words and Phrases

Word/Phrase	Definition
replacement allowance	An allowance that provides for the periodic replacement of building components that wear out more rapidly than the building itself and must be replaced during the building's economic life. ¹¹
replacement cost	The estimated cost to construct, at current prices as of the effective appraisal date, a building with utility equivalent to the building being appraised, using modern materials and current standards, design, and layout. ¹¹
reserve for replacements	See replacement allowance. ¹¹
reserve for replacements	An allowance in the annual operating statement to provide for the replacement of shorter-life items (e.g., stoves, refrigerators, carpeting, air-conditioning units), the replacement of which is necessary in order to sustain a projected level of income. Same as 'replacement allowance'. ¹⁴
residual capitalization rate	An overall capitalization rate used to estimate the resale price of a property; usually based on the anticipated stabilized income for the year beyond the holding period; also called terminal capitalization rate. ¹¹
reuse	Using a product or component of municipal solid waste in its original form more than once; e.g., refilling a glass bottle that has been returned or using a coffee can to hold nuts and bolts. Reuse is a sustainable building strategy in that it reduces the strain on both renewable and nonrenewable resources, and when materials are reused on or near the site of salvage, they reduce transportation-related environmental impacts. ⁴
reversion capitalization rate	The capitalization rate used to determine reversion value. ⁸
right of first refusal	Opportunity of a party to match the terms of a proposed contract before the contract is executed. ⁹
risk management	A systematic approach to identifying and separating insurable risks from non-insurable risks, and evaluating the availability and costs of purchasing third-party insurance. ⁸
risk rate	The annual rate of return on capital that is commensurate with the risk assumed by the investor; the rate of interest or yield necessary to attract capital. ¹¹

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Glossary of Words and Phrases

Word/Phrase	Definition
sale-leaseback	A financing arrangement in which real property is sold by its owner-user, who simultaneously leases the property from the buyer for continued use. Under this arrangement, the seller receives cash from the transaction and the buyer is assured a tenant and thus a fixed return on the investment. ¹¹
sales comparison approach	A set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, then applying appropriate units of comparison and making adjustments to the sale prices of the comparables based on the elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant; it is the most common and preferred method of land valuation when an adequate supply of comparable sales is available. ¹¹
secondary market	A market where existing mortgage loans are securitized and then bought and sold to other investors. ⁸
Section 1031	Section of the Internal Revenue Code dealing with tax-free exchanges of like-kind property. ⁹
security	An asset that is deposited or pledged as a guarantee of the payment or fulfillment of an obligation or debt. ¹¹
setback	<ol style="list-style-type: none"> 1. Zoning regulations that designate the distance a building must be set back from the front, rear, and sides of the property lines. 2. The height at which the upper floors of a building are recessed, or set back, from the face of the lower structure.¹¹
short-term lease	An indefinite term, but usually implies a contract with a term of less than 10 years. ¹¹
sick building syndrome (SBS)	According to the EPA and NIOSH, Sick Building Syndrome is defined as “situations in which building occupants experience acute health and/or comfort effects that appear to be linked to time spent in a particular building, but where no specific illness or cause can be identified. The complaints may be localized in a particular room or zone, or may be spread throughout the building.” Occupants experience relief of symptoms shortly after leaving the building. ¹

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Glossary of Words and Phrases

Word/Phrase	Definition
site improvements	Improvements on and off a site that make it suitable for its intended use or development. On-site improvements include grading, landscaping, paving, and utility hookups; off-site improvements include streets, curbs, sidewalks, drains, and connecting utility lines. ¹¹
solar design	A building design that makes use of the sun's energy; either active, using solar collectors outside the building envelope to gather energy for space or water heating, or passive, allowing the position and intensity of the sun to provide interior heating. ¹¹
solar easement	A limitation on the use of property that prohibits any construction or activity that might obstruct or interfere with the reception of sunlight by an adjacent property of solar design. ¹¹
source reduction	<ol style="list-style-type: none"> 1. The design, manufacture, purchase or use of materials to reduce the amount or toxicity of waste in an effort to reduce pollution and conserve resources (i.e., reusing items, minimizing the use of products containing hazardous compounds, extending the useful life of a product and reducing unneeded packaging). 2. Practices that reduce the amount of any hazardous substance, pollutant or contaminant entering any waste stream or otherwise being released into the environment. Such practices also reduce the risk to public health and the environment associated with such releases. Term includes equipment or technology modifications, substitution of raw materials, and improvements in housekeeping, maintenance, training or inventory control.⁶
space plan	A graphic representation of a tenant's space requirements, showing wall and door locations, room sizes and sometimes furniture layouts. ⁸
special assessment	Special charges levied against real property for public improvements that benefit the assessed property. ⁸
special districts	Special service governments created to provide a particular service, e.g., economic development districts, water resource management districts. ¹¹
special exceptions	Uses that do not conform to the zoning code but may be permitted under specific, tightly controlled circumstances. ¹¹

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Word/Phrase	Definition
special servicer	In the servicing of a commercial mortgage-backed securities (CMBS) pool, an institution contracted to handle the direct servicing of loans that have gone into default. ¹¹
special use permit	Permission granted by a local zoning agency that authorizes a use as a special exception to the applicable zoning. A special use permit in a residentially zoned area might allow for construction of a church or hospital. Such uses are considered conditional uses, only permitted upon the approval of the zoning authority. ¹¹
stabilized expense	A projected expense that is subject to change, but has been adjusted to reflect an equivalent, stable annual expense. ¹¹
stabilized net operating income	Projected income less expenses that are subject to change but have been adjusted to reflect equivalent, stable property operations. ⁸
stabilized occupancy	The optimum range of long-term occupancy that an income-producing real estate project is expected to achieve after exposure for leasing in the open market for a reasonable period of time at terms and conditions comparable to competitive offerings. ⁸
standard metropolitan statistical area (SMSA)	A term formerly applied to a single city with a population of at least 50,000 or a city of at least 25,000 that is combined with contiguous areas with densities of at least 1,000 people per square mile to produce a population of at least 50,000. The city and contiguous areas must be located in a county or counties with a population of at least 75,000. In 1980, SMSA was replaced by the term metropolitan statistical area (MSA). ¹¹
stigma	An adverse public perception regarding a property; the identification of a property with some type of opprobrium (environmental contamination, a grisly crime), which exacts a penalty on the marketability of the property and hence its value. ¹¹
structural insulated panel (SIP)	Manufactured panels consisting of a sandwich of polystyrene between two layers of engineered wood paneling. Can be used for walls, roof, or flooring, and result in a structure very resistant to air infiltration. ⁴

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Word/Phrase	Definition
sublease	An agreement in which the lessee in a prior lease conveys the right of use and occupancy of a property to another, the sublessee for a specific period of time, which may or may not be coterminous with the underlying lease term. ¹¹
subordination	A contractual arrangement in which a party with a claim to certain assets agrees to make his or her claim junior, or subordinate, to the claims of another party. ¹¹
subsoil	Usually the B horizon of soils, but its identification depends on the type of soil profile; commonly the part of the soil that lies below plow depth or below the solum. ¹¹
superadequacy	An excess in the capacity or quality of a structure or structural component; determined by market standards. ¹¹
survey	A map or plat made by a licensed surveyor showing the results of measuring the land with its elevations, improvements, boundaries, and its relationship to surrounding tracts of land. A survey is often required by the lender to assure him that a building is actually sited on the land according to its legal description. ¹⁰
syndication	A private or public partnership that pools funds for the acquisition and development of real estate projects or other business ventures. ¹¹
tangible property	Property that can be perceived with the senses; includes land, fixed improvements, furnishings, merchandise, cash, and other items of working capital used in an enterprise. ¹¹
tax deferred exchange	The exchange, but not sale, of a real property held for investment or used in a trade or business for a similar property; allows the property holders to defer capital gains. ¹¹
tenant contributions	All costs that are the responsibility of the tenant(s), over and above the contract rent specified in the lease. ¹¹
tenant improvement (TI) allowance	A dollar amount provided to the tenant by the landlord for the construction of tenant improvements, which may or may not equal the cost of construction or remodeling. ¹¹
tenant improvements (TIs)	<ol style="list-style-type: none"> 1. Fixed improvements to the land or structures installed and paid for by a tenant or lessee. 2. The original installation of finished tenant space in a construction project; subject to periodic change for succeeding tenants.¹¹

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Word/Phrase	Definition
tenant mix	A phrase used to describe the quality of a property's income stream. In multi-tenanted properties, institutional investors typically prefer a mixture of national credit tenants, regional credit tenants and local non-credit tenants. ⁸
tenant workletter	Written agreement between a landlord and a tenant specifying the tenant improvement work to be performed by each. ¹¹
terminal capitalization rate (R_N)	The rate used to convert income, e.g., NOI, cash flow, into an indication of the anticipated value of the subject real property at the end of an actual or anticipated holding period. The terminal capitalization rate is used to estimate the resale value of the property. Also called reversionary capitalization rate or going-out capitalization rate. ¹¹
time value of money	The concept underlying compound interest that holds that \$1 received today is worth more than \$1 received in the future due to opportunity cost, inflation, and the certainty of payment. ¹¹
title	As generally used, the rights of ownership and possession of particular property. In real estate usage, title may refer to the instruments or documents by which a right of ownership is established (title documents), or it may refer to the ownership interest one has in the real estate. ¹⁰
title insurance	Protects lenders or homeowners against loss of their interest in property due to legal defects in title. Title insurance may be issued to a "mortgagee's title policy." Insurance benefits will be paid only to the "named insured" in the title policy, so it is important that an owner purchase an "owner's title policy", if he desires the protection of title insurance. ¹⁰
trade fixtures	Personal property that is attached to a structure that is used in the business. Because this property is part of the business and not deemed to be part of the real estate, it is typically removable upon lease termination. ⁸
triple bottom line reporting	New form of corporate disclosure which integrates financial, environmental and social reporting. ³
triple net lease	Lease in which the tenant is to pay all operating expenses of the property so that the landlord receives net rent, frequently used to mean tenant pays taxes, insurance, and maintenance in addition to normal operating expenses. ⁹

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Word/Phrase	Definition
trustee	A party who is given legal responsibility to hold property in the best interest of or "for the benefit of" another. The trustee is one placed in a position of responsibility for another, a responsibility enforceable in a court of law. (See deed of trust). ¹⁰
t-statistic	A measure of the flattening of the normal curve; also called 't-value'. ¹¹
t-test	A statistical test to determine the confidence intervals of t-values. ¹¹
turn key project	The construction of a project in which a third party is responsible for the total completion of a building, or for the construction of tenant improvements to the customized requirements and specifications of a future owner or tenant. ⁸
turnover vacancy	A method of calculating vacancy allowance that is estimated or considered as part of the potential income estimate when using discounted cash flow (DCF) analysis. As units or suites turn over and are available for re-leasing, the periodic vacancy time frame (vacancy window) to re-lease the space is considered. Accordingly the income estimate reflects a component of vacancy and is not true potential gross income but some level of effective gross income. ¹¹
underground storage tank (UST)	A tank, including connected underground pipes, used to contain regulated substances, the volume of which is 10% or more beneath the surface of the ground. ¹¹
underwriter	<ol style="list-style-type: none"> 1. An individual or organization that assumes a risk for a fee. 2. In investment, a party who agrees to guarantee payment for a securities issue with the intention of selling it to individual investors. 3. In real estate, a party who evaluates the risk involved in making a mortgage and approves or denies the mortgage.¹¹
Uniform Standards of Professional Appraisal Practice (USPAP)	Current standards of the appraisal profession, developed for appraisers and the users of appraisal services by the Appraisal Standards Board of The Appraisal Foundation. The Uniform Standards set forth the procedures to be followed in developing an appraisal, analysis, or opinion and the manner in which an appraisal, analysis, or opinion is communicated. They are endorsed by the Appraisal Institute and by other professional appraisal organizations. ¹¹

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Word/Phrase	Definition
urethanes	A family of plastics (polyurethanes) used for varnish coatings, foamed insulations, highly durable paints, and rubber goods. ¹
usable square footage	The area contained within the demising walls of the tenant space that equals the net square footage multiplied by the circulation factor. ⁸
useful life	The period of time over which a structure may reasonably be expected to perform the function for which it was designed. ¹¹
vacancy factor	The amount of gross revenue that pro forma income statements anticipate will be lost because of vacancies, often expressed as a percentage of the total rentable square footage available in a building or project. ⁸
vacancy rate	The total amount of available space compared to the total inventory of space and expressed as a percentage. ⁸
valuation	The process of estimating the market value, insurable value, investment value, or some other properly defined value of an identified interest or interests in a specific parcel or parcels of real estate as of a given date. Valuation is a term used interchangeably with appraisal. ¹¹
value engineering	Substituting building types, systems, materials or finishes that reduce costs without compromising objectives and needs. The process exposes potentially hidden building costs that may not have been anticipated for the building's operations. ²
variable-rate	A loan interest rate that varies over the term of the loan, usually tied to a predetermined index. Also called adjustable-rate. ⁸
variable-rate mortgage (VRM)	A mortgage with an interest rate that may move up or down following a specified schedule or the movements of a standard or index to which the interest rate is tied. ¹¹
volatile organic compound (VOC)	Chemical compounds based on carbon and hydrogen structures that are vaporized at room temperatures. VOCs are one type of indoor air contaminant. Although thousands have been identified in indoor air, only a few are well understood and regulated. ¹
water-holding capacity	The amount of water that soil with free drainage will hold against the pull of gravity; expressed as a percentage of the dry weight of the soil. ¹¹

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Word/Phrase	Definition
waterless urinal	Urinal with no water line. Most designs use a specialized material that allows fluid to drain one-way into the sewer system. ⁴
water-source heat pump	Heat pump that uses wells or heat exchangers to transfer heat from water to the inside of a building. Most such units use ground water. ⁵
watts per square foot	A shorthand measure of the energy use of a building, often applied to indoor lighting. Energy codes often limit the watts per square foot based on building type and function. ⁴
weighted average cost of capital (WACC)	The cost of capital (discount rate) determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise's capital structure. ¹¹
wildscaping	Retention of native soil, vegetation, and other natural features when building on the land, rather than the removal of soil, vegetation and natural features followed by artificial landscaping once the building is completed. ³
wind turbine	Device for generating electricity from wind; windmill. ⁴
window-to-floor ratio	The ratio of total, unobstructed window glass area to total floor area served by the windows, expressed as a percentage. This value can also be further subdivided by solar orientation (such as south-facing window-to-floor ratio). ¹
working drawings	The set of plans for a building or project that comprise the contract documents that indicate the precise manner in which a project is to be built. ⁸
xeriscaping	Landscaping designed to save water. ³
yield	See yield to maturity. ¹¹
yield to maturity	In finance, the total rate of return that would be realized on an investment such as a bond if purchased at the current market price, held as an investment, and redeemed for the principal amount at maturity. ¹¹
zoning	The public regulation of the character and extent of real estate use through police power; accomplished by establishing districts or areas with uniform restrictions relating to improvements; structural height, area, and bulk; density of population; and other aspects of the use and development of private property. ¹¹

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Word/Phrase	Definition
zoning ordinance	The set of laws and regulations controlling the use of land and construction of improvements in a given area or zone. ⁸
z-statistic	The number calculated in a z-test, whose significance is evaluated by reference to a z-table. ¹¹
z-test	A test of any of a number of hypotheses in inferential statistics that has validity if sample size is sufficiently large and the underlying data are normally distributed. ¹¹
z-value	The standard normal deviate; represents the number of standard deviation units that the random variable, or observation, in a data set is above or below the mean. Tables for the area under a normal curve are constructed in terms of z values for a given z; the tables provide the basis for determining the probability of an outcome between two values or the probability of an outcome being greater or less than a specific value. ¹¹

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